DECENTRALIZATION AS AN APPROACH TO MANAGE LOCAL PUBLIC INVESTMENT WITH A CASE STUDY OF EGYPT

By

Shadwa Esmat Abd-El kader

THESIS

Submitted to
KDI School of Public Policy and Management
In partial fulfillment of the requirements
For the degree of

MASTER OF PUBLIC POLICY

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Committee in charge:

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ABSTRACT

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Shadwa Esmat Abd-El Kader

Decentralization is a widely used approach in the management of local public investment. It is argued that it helps make governments more responsive to the local needs, more accountable and more efficient in managing local investment. Despite its wide spread, it still faces some constraints in its applications in different countries.

This thesis attempts to study the different forms and types of decentralization and how it affects the management functions of local investment. Then, it shall shed the light on the decentralized efforts of Egypt, and assess the constraints Egypt faces in its application, and provide some recommendations to develop the process of decentralizing management functions of local public investment.

Dedicated to my beloved Parents

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Introduction:

Local investment is considered a corner stone for local economic development. It has gained the world attention in recent years, and has been affected by several conditions such as: the economic downturns associated with structural adjustment and political instability experienced by many countries; the interdependency in making investments plans between local producers, other economic agents as well as the government; the loss of central governments to its central economic coordinating role, while other actors, to make the market economy work, are weak; the rise in socioeconomic gaps between localities and regions; and the call for new roles for the public sector on both central and local government levels.

Local public investment has two main roles: delivering sensitive public services in an effective way; foster co-operation at a broad regional level with private and public sector actors, to ensure that market sensitive development interventions are delivered in a professional and supported manner. In this sense, local investment plays an active role in raising living standards, creating more wealth and jobs, improving quality of services, and achieving distributional and social justice among citizens.

The approaches used to plan, manage and finance for local public investment differ across countries and from region to region. This difference can be traced back to various elements, among which are: the difference in mechanisms for attracting, appraising, and managing public investment; and difference in political cultures in terms of appraising and accepting risk in relation to public sector investment as a wealth creating activity (Clark, G. and Mountford, D., 2007). Also, differences in economic, political, legal or administrative systems affect the approaches applied in managing local public investment.

Despite the difference in the approaches implemented, it can be clearly noticed that decentralization became a world-wide trend (Kälin, W., 1999), whether it is an initiation of the country itself or as a result of a pressure by aid agencies. Decentralization is particularly widespread in developing countries for a variety of reasons: the advent of multiparty political systems in Africa; the deepening of democratization in Latin America; the transition from a command to a market economy in Eastern Europe and the former Soviet Union; the need to improve delivery of local services to large populations in the centralized countries of East Asia; the challenge of ethnic and geographic diversity in South Asia, as well as ethnic tensions in other countries (Bosnia and Herzegovina, Ethiopia, Russia) and the attempt to keep centrifugal forces at bay by forging asymmetrical federations; and the plain and simple reality that central governments have often failed to provide effective public services (Litvack, J. et al, 1998).

Therefore, this study tends to focus on decentralization as an approach to manage local public investment. It will assess the different types and forms of decentralization. It shall see how these forms affect the essential management functions of local public investment (planning, financing and implementation). In addition, it shall refer to the constraints and challenges that might be facing the adoption of this approach.

Egypt will be taken as a case study. The study shall explain the current Egyptian local system and where Egypt stands within the framework of decentralization -mainly regarding the functions of planning and financing of local public investment. Then, it will assess the problems and constraints facing the adoption of decentralization in managing local public investment in Egypt and provide some recommendations to facilitate the transition towards decentralization.

Chapter 1: Decentralization: Conceptual Framework:

It is evident that an extensive literature argues for the removal of central control over the management of local public investment. This neoclassical economic argument is reinforced by the growing skepticism about the capacity of central government bureaucracies to effectively promote equitable economic development.

As a result, governments of developing countries are more seriously considering decentralization, especially due to the growing arguments from aid agencies that decentralization can help such governments address problems caused by the increased complexity of governance, difficulty of building financially and administratively effective central bureaucracies, growing demands for local empowerment, intractable problems of economic development, national dept, rising budget deficit, and growing local-level demands for goods and services (Cohen, J. and Peterson, S., 1999).

It is worth mentioning that some countries still believe in giving the priority for managing local public investment to the central government, and some countries such as Norway, have shifted back again to the centralized approach, in what scholars named as recentralization (Magnussen, J. et al, 2007). They depend on arguments such as the following:

- **Lack of technical, human, and financial resources:**

This can hinder local governments from investing in and producing a heterogeneous range of public services that are both reasonably efficient and responsive to local demands (Faguet, J., 2002).

- **Territorial spillovers/ externalities:**

The activities and investment undertaken by one community can sometimes affect the well-being of people in other communities. If each community cares only about its own members, these externalities are overlooked, and accordingly resources are allocated inefficiently (Rosen, H. and Gayer, T., 2008).

- **Local provision may fail to exploit economies of scale:**
  The smallness of local jurisdictions often implies that they are below the critical size for cost-efficient provision of investing in public goods or services.

- **Inefficiencies due to overlapping responsibilities across government levels:**
  The lack of clear division between the spending responsibilities of higher and lower-level authorities may result in an inefficient use of resources (Joumard, I. and Kongsrud, P., 2003).

1-1 Arguments for Decentralization:

Proponents of the idea that local public investment should be assigned to the lowest level of government i.e. decentralized, have also their arguments- among which are the following:

- **Response to local preferences:**
  The traditional theory contends that the central government should have the basic responsibility for macroeconomic stabilization functions, national public goods, such as defense, and income redistribution in the form of assistance to the poor. However, a “one-size- fits-all” approach may not deliver a basket of public goods that is optimal for all citizens. By being closer to local citizens, sub-national governments are, in principle, better placed to respond to their preferences in term of local public goods, to assess willingness to pay and to target services to the right people. Hence, “Pareto efficiency” could be raised – i.e. resources can be saved without making anyone worse off – through fiscal decentralization.

- **Increased government accountability:**
  Since local officials can be easily identified by voters and taxpayers, they

are expected to be more accountable, especially if the costs of providing public services are borne locally.

- **Introducing competition across jurisdictions:**

Diversity in fiscal packages offered by sub-national jurisdictions – in terms of quantity and quality of public goods and the associated tax burden – may introduce some competition across jurisdictions, and thus incentives for governments to raise public sector investment efficiency. Competition between jurisdictions relies on the assumption of mobile citizens (citizen vote with their feet).

- **Supply-side efficiency:**

Decentralization may allow for experimentation in the management of public responsibilities. In some decentralized countries, sub-national governments have taken the lead in designing innovative measures to increase public spending effectiveness (Joumard, I. and Kongsrud, P., 2003).

- **Improving management efficiency:**

Decentralization can lead to the reduction of overload and congestion in the channels of communications; timely reaction to unanticipated problems that inevitably arise during implementation; improved technical capacity to deliver services at the field level; improved administrative and managerial capacity; and improved information about local conditions for more effective and appropriate economic development planning and decision-making.

1-2 Forms and Types of Decentralization:

Several ways of classifying the forms of decentralization have been promoted over the past few decades, by those making a clear distinction between centralization and decentralization. Six main approaches identifying decentralization forms can be identified in the literature:

The first approach classifies forms on the basis of historical origins. A focus on history has led some specialist to assert that there were four basic decentralization patterns: French, English, Soviet and Traditional. This classification is viewed today as simplistic and analytically weak.

The second approach distinguishes decentralization forms by hierarchy and function. According to this view, territorial decentralization refers to the transfer of centrally produced and provided public goods and services to local-level units in the government hierarchy of jurisdiction. Functional decentralization refers to the transfer of such central responsibilities to either parastatals under the control of the government or to units outside governmental control. This classification is too rudimentary to facilitate clarity over design and implementation.

The third approach identifies forms of decentralization by the problem being addressed and the values of the investigators. It focused on studying the linkages of the center and the periphery on a sector-by-sector basis. The problem of this approach is that it is dependent on the administrative, political, economic, and value rationale of the analysts addressing the problem.

The forth approach focuses on patterns of administrative structures and functions that are responsible for the production and provision of collective goods and services. The problem with this approach is that it is not analytically enough to deal with the increasing diversity of structural and functional designs that marks the last three decades.

The fifth approach, under it, transferring responsibility, manpower, and resources to central government field offices is not decentralization. Rather, decentralization only occurs when local level government units are: established by legislation; located within clearly demarcated jurisdictional boundaries within which there is a sense of community and solidarity; governed by locally elected officials and representatives; authorized to make and enforce local ordinances related to devolved pubic sector tasks; authorized to collect legally earmarked taxes and revenues; and empowered to manage their budget, expenditure, and accounting systems, and hire their own employees. The approach takes a narrow definition of decentralization (Cohen, J. and Peterson, P., 1999).

The sixth approach, and the most widely used by scholars and the one used in this paper, classifies forms of decentralization on the basis of objectives: Political, Administrative, Fiscal, and Market decentralization. **"Political decentralization"** aims to give citizens and their elected representatives more power in public decision-making. It is often associated with pluralistic politics and representative government, but it can also support democratization by giving citizens or their representatives more influence in formulating and implementing policies. **"Administrative decentralization"** seeks to redistribute authority, responsibility, and financial resources for providing public services among different levels of government. It is the transfer of responsibility for planning, financing, and managing certain public functions from the central government and its agencies to field units of government agencies, subordinate units or levels of government, semi-autonomous public authorities or corporations, or area-wide, regional, or functional authorities. Administrative decentralization has three major forms: deconcentration, delegation, and devolution. **"Fiscal decentralization"** stresses upon the fact that financial responsibility is a core component of decentralization. If local governments and private organizations are to carry out decentralized functions effectively, they must have adequate revenues -raised locally or transferred from the central government- as well as the authority to make expenditure decisions. Fiscal decentralization can take many forms including: Self-financing or cost recovery through user charges; Co-financing or co-production, in which users participate in providing services and infrastructure through monetary or labor contributions; Expansion of local revenues through property or sales taxes or indirect charges; Intergovernmental transfers of general revenues from taxes collected by the central government to local governments for general or specific uses; Authorization of municipal borrowing and mobilization of national or local government resources through loan guarantees. **“Market decentralization”**: the most complete forms of decentralization from a government's perspective are privatization and deregulation; they shift responsibility for functions from the public to the private sector. They allow functions that had been primarily or exclusively the responsibility of government to be carried out by businesses, community groups, cooperatives, private voluntary associations, and other nongovernmental organizations. Privatization and deregulation are usually accompanied by economic liberalization and market development policies (Litvack, J. and Seddon, J., 1999).

Decentralization can be either horizontal or vertical. Horizontal decentralization disperses power among institutions at the same level, while vertical decentralization, which is more useful, allows some of the powers of a central government to be delegated downwards to lower tiers of authority (Hope, K., 2000).

Since our main concern here is the management process of public investment at the local level, the paper will focus on administrative decentralization and its impact on local investment management process.

Administrative decentralization: has been defined as: the "transfer of responsibility for planning, management, and the raising and allocation of resources from the central government and its agencies to field units of government agencies, subordinate units or levels of governments, semi-autonomous public authorities or corporations, area-wide regional or functional authorities or non-governmental private or voluntary organizations" (Rondinelli, D. and Nellis, J., 1986).

The literature often differentiates between three major types of administrative decentralization: deconcentration; delegation; and devolution. There are also two other types -top-down principal agency, bottom-up principal agency- that are important since they identify real situations which are not captured by the other three. In addition, the probability of the coexistence of more than one type of administrative decentralization, has led scholars to call it "hybrid".

1-2-1 Administrative decentralization:

1-2-1-1 Deconcentration:

It is the passing-down of selective administrative functions to lower levels or subnational units within central government ministries. Deconcentration is the least extensive form of decentralization. Although it does result in some dispersal of power, few decisions can be taken without reference to the centre (Hope, K., 2000). Cohen and Peterson (1999) had defined it as the transfer of authority over specified decision-making, financial, and management functions by administrative means to different levels under the jurisdictional authority of the central government. It involves ministries retaining power over key tasks at the center while transferring the implementation roles related to such tasks to staff located in ministerial field offices. In such systems, local governments exist as discrete ministry offices – not as discrete entities- and without any mechanisms at the local level for mandatory horizontal integration. Deconcentration is the most common form of decentralization employed in agriculture services, primary education, and preventive health.

The Criteria for deconcentrating authority within various departments or other organizations of central government are similar, but not exactly the same, as for delegating to districts assemblies as principal agents. The one significant difference is that activities for which local governments are not likely to be assigned responsibility during the foreseeable future, but which do meet the other requirements of principal agency, should be deconcentrated in order to relieve local government of the burdens of implementations (Silverman, J., 1992).

1-2-1-2 Delegation:

Delegation is the transfer of specific authority and decision-making powers to organizations that are outside the regular bureaucratic structure and that are only indirectly controlled by the central government, such as parastatals and semi-autonomous agencies. In this type of decentralization, the central government retains the right to overturn local decisions and can, at any time, take these powers back (Hope, K., 2000). In other words, it is the transfer of government decision-making and administrative authority for clearly defined tasks to organizations or firms that are either under its indirect control or are independent. Mostly, it is done by central government to semi-autonomous organizations, not wholly controlled by central government but legally accountable to it (Cohen, J., and Peterson, S., 1999). The semi-autonomous government agencies are assigned the responsibility for implementing or maintaining sector investments. Such arrangements occur primarily in the energy, communication, ports and transport sectors.

The Criteria for delegation to parastatals, special districts or project management units vary somehow depending on the type of organization to which responsibilities are delegated.

Criteria for delegation to any type of organization include:

- Requirements are technical and capital, rather than labor intensive; and
- Do not require significant supporting actions by other agencies of government.

Criteria particular to one or another type of organizations:

Parastatals:

- The range of activities are focused on the delivery of a single, discrete service, or very limited range of discrete services; and
- The activities to be performed are of a commercial or quasi-commercial nature, but are considered public goods by virtue of tending towards natural monopoly.

Special districts:

- The range of activities are focused on the delivery of a single, discrete service, or very limited range of discrete services; and they are of a commercial or quasi-commercial nature (as in the case of other parastatals); but
- Efficient and effective delivery of services require location-specific decision-making because the area served has relatively unique characteristics; and
- Such unique characteristics do not conform to the administrative boundaries of any of the more ordinary administrative boundaries of

government (e.g. local governments)

Project Management Units:

They are limited to functions which are performed on a temporary basis and are not expected to be performed beyond the life of the project (Silverman, J., 1992).

1-2-1-3 Devolution:

It occurs when authority is transferred by central governments to autonomous local-level governmental units holding corporate status granted under state legislation. In devolved systems, responsibilities for a range of operations encompassing more than one sector are assigned to local governments. To the extent that local governments have discretionary authority, they can do essentially what they decide to do; bind only by: broad national policy guidelines; their own financial, human, and material capacities; and the physical environment within which they must operate. The exercise of discretion by local governments depends to a significant extent on their ability to generate the financial and staff resources to implement the decisions which they themselves make. The role of central government here is limited to ensuring that local governments operate within very broad national policy guidelines, with respect to those functions for which local government have the authority to exercise discretion.

In these devolved systems, project implementing agencies are responsible to local governments rather than to sector ministries. The management of projects is integrated within the established structure of local governments (centralized management at the local government level) or autonomy is granted to project-specific management units (delegation or deconcentration of management to project managers by local government).

The Criteria for devolution: Consideration could be given to devolving discretionary authority for planning and implementing projects and on-going operations which:

- Require location-specific decision-making because the area served by the project has relatively unique characteristics in terms of impact on project implementation and subsequent operations;
- Do not have significant consequences for priority objectives of the country as a whole;
- Have relatively low economies of scale as compared to implementation or operation on a country-wide scale;
- Are labor-intensive, rather than technical and capital intensive;
- Require close integration of activities across sectors within a limited geographical area encompassed within established local jurisdictions;
- Desire or require local participation;
- Are relatively small scale;
- Can be easily contracted out to the private sector for technical design. Implementation, and operations; and/or
- Do not require significant supporting actions by other agencies of government, either at high levels or among semi-autonomous corporations (Silverman, J., 1992).

1-2-1-4 Top-Down Principal Agency:

When acting as principal agents, local governments exercise responsibility on behalf of central governments or parastatals, and they do so under the direction and supervision of central government agencies. Depending on the degree of autonomy local governments have -with respect to their other functions- they can act as principal agents in two ways: they can do so in their entirety and be no more than complete principal agents of central governments or they can serve as principal agents in parallel with their performance of other responsibilities.

The Criteria for Top-Down Principal Agency: Consideration could be given to assigning responsibilities to local governments as Principal Agents for projects and operations which:

- Have significant consequences for priority objectives of the country as a whole;
- Require some location-specific adaptation to somewhat unique features of the environment within which project implementation and/or subsequent operations will need to take place;
- Have relatively medium-range economies of scale as compared to implementation or operation on either a strictly local or country-wide scale;
- Are relatively small-scale and labor intensive, but require significant levels of technical, logistical, and/or managerial backup and support;
- Are more easily contracted-out to the private sector at local levels than would be the case at national or regional level; and/or
- Involve activities which local governments do not now have the capacity to implement but for which it is desired they develop such capacity so as to serve as discretionary authorities in future (Silverman, J., 1992).

1-2-1-5 Bottom-Up Principal Agency:

It is the opposite of the top-down model. In this situation, various levels of government or government parastatals act as agents of lower levels of governments or directly as agents of beneficiaries or clients. The source of the discretionary authority is reversed. As is the case with the top–down principal agency model, the fundamental characteristics of the bottom–up principal agency model also do not depend on the extent to which local governments are, or are not, subordinate to higher levels of government with respect to other functions they might perform (Silverman, J., 1992).

The Criteria for Bottom-Up Principal Agency at Community Level: Consideration could be given to assigning responsibilities to governments as Principal Agents of beneficiaries/ clients/ users for services which:

- Require community level location-specific decision-making because the area served has relatively unique characteristics in terms of service requirements;
- Do not have significant consequences for priority objectives of the country as a whole;
- Require local participation, as determined by a community's population itself; and
- Are not capital intensive; but
- Have relatively high economies of scale; and
- Do require supporting actions by other agencies of government or the private sector because of significant technical requirements in the design, implementation, or operation of the activity (Silverman, J., 1992).

1-2-1-6 Hybrid Decentralization:

In practice, it is not easily to assess the impact of decentralization on investment programs or projects only in terms of those five types of decentralization. Most system-wide institutional arrangements are characterized by the coexistence of elements of at least four of those forms of decentralization, together with other highly centralized government functions. Such systems will be referred to as “hybrid” (Silverman, J., 1992).

Within hybrid systems, some functions are decentralized in one way and other functions are decentralized in other ways. For instance, one common form of hybrid system results when governments assign responsibility for financing and supervising investment projects to local government, while retaining responsibility for planning investments, technical staff employment and career advancement, as well as technical support, in central sector ministries.

Honadle and Gow (1981) suggested that effective decentralization strategies must be based on mutually supportive relationships between central and subnational governments. Several comparative studies of local organizations found that the nature of these links between authorities, representing smaller and larger communities, was central to the successful operation of the smaller units. The center must maintain responsibilities for performing functions for which it has comparative advantage while giving field personnel the autonomy and resources to demonstrate their capabilities. Such approach requires both strong linkages and shared responsibility between the center and periphery. It is important to focus on the linkages among organizations horizontally and vertically within the entire system, rather than on internal efficiencies within local governments or individual parastatals or specialized agencies. In other words, focusing should be on the entire decentralized system rather than limiting attention to local governments themselves.

1-3 Managing local public investment in decentralized governance:

The management responsibility of local investment became a multi-actor, multi-sector and multi-level. It is **multi-actor** where its success depends on its ability to mobilize public, private and nonprofit actors. It **is multi-sector**, which refers to public, private and community sectors of the economy. It **is multi-level,** both national and international due to the impact of global changes. Actors include: Local government; National Governments; Development agencies, development banks, and special regional funds; International financial institutions; Foundations and NGOs; Commercial banks and investment institutions.

The theory and the principles imbedded in the normative literature on assignments of investment and service responsibilities suggest that a sector is a prime candidate for decentralization if:

- Local demands for a service differ across localities;
- There are no substantial economies of scale associated with the service;
- There are no substantial spillovers of costs or benefits from the service;
- The service is amenable to at least partial local financing through taxes or charges;
- Local governments have the capacity to deliver the service;
- The service is not meant to provide substantial redistribution of income or wealth.

However, the institutional analysis literature suggests that it is not possible to declare, a priori, that certain services should always or never be decentralized. Sectoral decentralization policies should review the nature of the service and the situation of local governments to determine if conditions are conducive for decentralization (Andrews, M., and Schroeder, L., 2003).

Decentralizing services also do not have to be uniform across all local governments in a country. There may be different service requirements in different locations; for example, urban versus rural municipalities. Likewise, perceived differences in the technical and administrative capacities of local governments can result in differential assignments of investment and service responsibilities.

Notwithstanding, It is essential to clearly determine which functions in which sub-sectors ought to be delegated to which organizations or to be deconcentrated or be devolved to which level of government. Some functions are clearly national in scope and responsibilities for them ought to be retained by central governments.

However, it is important to distinguish first between the “providing” functions of public goods and the “producing” functions, since it helps to identify the types of management functions which ought to be maintained and improved by each party to the management process. *Provision* is the decision to and actual allocation of resources to a particular good or service and monitoring of its use. *Production* is the transformation of those resources into the delivery of those goods or services. It is axiomatic that governments are responsible for the provision of public good; although it is not necessarily involved in producing them.

If government agrees to limit its role to the provision of public goods and services, the decisions that they focus on shall be: what types of public goods and services ought to be financed by the public sector? How the production of such public goods and services ought to be financed? What is the quantity and quality of such goods and services? How and by whom such goods and services ought to be produced? What is the type of regulation which ought to be applied to private sector production of such goods and services? How the production of such goods and services will be monitored?

To exercise those responsibilities for the provision of local public investment, the government has to understand and determine its role with regard to the following functions: planning, financing, and implementing of local investment projects.

1-3-1 Planning of local investment:

Planning can be defined as “a continuous process which involves decisions or choices about alternative ways of using available resources with the aim of achieving particular goals at some time in the future” (Conyers, D. and Hills, P., 1984).

The establishment of investment planning is clearly essential for provision. Through the planning functions, decisions are made concerning what goods and services will be provided by the public sector and the quantity and quality of those goods and services. Governments need to plan to arrive at rational financial and allocation decisions based on clear goals settings, sufficient information, and sound analysis.

To plan for investment projects, the government has to consider both short-term and long-term objectives. In the short term, the efficient and effective implementations of a project’s initial investment activities are the primary objectives. In the long-term, longer term sustainability of benefits is the ultimate objective.

Till the mid 1960s, countries were more pre-occupied with macro-economic growth opportunities and laid great emphasis on large-scale investment projects. Planning was concentrated at the top and tended to be more focused more on strategies of development than on actual potentialities and means of implementation. This left a wide gap between the plan and the ground realities. In this context, it becomes clear that planning -to be more effective- has to share appropriately decision-making functions with sub-national levels through a system that is properly adapted to the needs and characteristics of the country involved, and covering the range of regional and local conditions.

This implies “multilevel planning”, which involves sharing of planning and policy functions at different sub-national levels and devising mechanisms and procedures for effective flows of information for planning and interaction between and among the sub-national levels. Attempting this kind of planning would involve: decentralization of planning to several discrete sub-national levels and planning for specific sector investments that must fully consider the broader cross-sectoral investment priorities established at the national level; organizing a two-way planning process; building up of capabilities to plan and implement functions at each one of the decision-making levels; managing planning with people’s participation (Sundaram, K., 1997).

The project design/planning function within developing countries has most been performed by one or some combination of the following: ministries of planning, sectoral ministries or other specialized agencies, specialized project planning units; and donor agencies responsible for financing a particular project.

Ministries of planning have been assigned responsibility for project investment feasibility studies and final approval of plans especially in countries with centrally planned economies. In such cases, sectoral ministries, or project-specific management units have usually been responsible for more detailed implementation planning.

This approach has led to many problems such as: diversion of planning bodies from appropriate focus on strategic planning to detailed project planning; planning ministries staff are normally less familiar with operational realities faced by implementing agencies or with the needs and desires of beneficiaries.

In a decentralized system, investment planning must be enhanced. Since sectoral ministries at the national headquarter level often suffer from inadequate information about location-specific conditions and priorities of potential beneficiaries, it is suggested that one of two alternatives be initiated: a vertically linked deconcentrated planning system within each sectoral ministry or a system which devolves particular planning responsibilities to state and local governments, perhaps with technical support provided by sectoral ministries (Silverman, J., 1992).

Without efficient planning, the investment process is condemned to failure. For the planning process to be efficient at the local level, according to Ioannis S. Vavouras (1986), it should include the following activities:

- Identification of the existing and forecasted social needs of the locality.
- Specification of the socioeconomic objectives of the local community.
- Formulation of priorities with respect to objectives.
- Identification of the alternative investment projects for the advancement of local objectives.
- Determination of the fair rate of return on capital, the planning horizon, and the financial, technical, institutional and other constraints.
- Financial analysis of the alternative projects and rejection of financially non-viable projects.

K.V Sundaram (1997) had identified various actions that are required for an effective multilevel planning as follows:

- Determining the critical area levels in the country to which planning and decision-making functions in the particular sector of activity under consideration could be decentralized.
- Defining the appropriate planning and decision-making functions against each area level, so that there are no overlaps in planning among the various area levels.
- Matching planning functions with adequate allocation of financial resources to the various area levels, so as to enable the performance of those functions in an effective manner.
- Equipping the area levels with properly staffed planning machinery to perform the designated planning and decision-making functions.
- Training the planning personnel in the tasks of multilevel planning.
- Building up a suitable database and information system at the critical area levels to support the planning and decision-making activities.
- Establishing suitable organizational structures for coordination as part of the overall mechanism for planning devised at the various area levels.
- Establishing linkages- downwards (i.e. sector/component projects linkage), horizontal (i.e. sector-sector linkage) and vertical (i.e. sectoral hierarchy linkage) linkages for integrated development.
- Establishing an effective two-way communication network through hierarchal, expert group, status group and friendship group consultations for rapid exchange of information.
- Instituting regular flows of information, top-down (for policies/priorities,

targets, guidelines, finances, reviews, evaluation, etc) and bottom-up (for data on local needs, feedback on the implementation of projects and local levels perception relating to problems and constraints, etc).

- Delegating various administrative powers and authority to the lower levels to enable as well as quicken the decision-making process at these levels.
- Organizing monitoring on a decentralized basis with evaluation being centralized at appropriate levels.
- Organizing participation at various levels through formal and informal methods so that the needs and aspiration of the people are duly taken note of in the planning process.

1-3-2 Financing of local Investment:

One of the main arguments for decentralization, as previously mentioned, is the expectation that local governments can be more efficient and effective than central governments in raising revenue. This was based on the belief that officials in close proximity to those who are required to pay taxes and users' fees, will result in increased ease of enforcing revenue regulations. In addition, willingness of taxpayers and users of public sector services to pay local governments shall be greater, assuming that local governments have greater legitimacy and more responsive to citizen preferences when deciding on local investment and recurrent expenditures.

Revenue sources play a key role in influencing local government spending behavior and investment decision. To be "optimal", financing patterns should meet several, sometimes conflicting, objectives. On the one hand, local governments may better respond to local citizens' preferences where local taxation allows spending to be matched with costs. On the other hand, the need to smooth volatile local tax revenues, efficiency of tax collection, minimization of compliance costs often argues in favor of some co-ordination/centralization of taxing powers (Joumard, I. and Kongsrud, P., 2003). In practice, sub-national governments rely on very different mixes of resources, which are mainly: taxes, user-charges, borrowing, from government production or sale of goods or services, and intergovernmental grants.

Local Taxes are considered the main source of revenue for local government expenditures, mainly property taxes, income taxes, sales and excise taxes, and business taxes. The autonomy local governments are granted to set tax bases and rates varies significantly across countries. In some cases, sub-national government tax revenues derive mostly from tax-sharing arrangements, whereby sub-national governments receive a share of the taxes collected within their jurisdiction, or nationwide, but have virtually no right to set tax parameters (Joumard, I. and Kongsrud, P., 2003).

User fees and Charges refer to prices charged by local governments for specific services or privileges used to pay for all or part of the cost of providing those services. User fees, normally account for a marginal percentage of local revenues. To the degree that the incentive framework shifts from reliance on central government subsidies to self-financing by local governments, user fees can be expected to assume lager importance (Fisher, R., 1987). Nevertheless, further reliance on user fees and charges by sub-national governments faces two main constraints. First, increasing sub-national government reliance on user charges may raise equity concerns, especially where applied to core goods and services (namely education, health care and social assistance). Sub-national governments are frequently bound by legal constraints in setting the level of charges. Second, user charging is an attractive option only if the implementation costs are lower than the expected efficiency gains. Implementation costs are also likely to reflect scale economies and thus be high in the smallest jurisdictions. There is a trade-off between implementation costs and efficiency gains from user-charging (Joumard, I. and Kongsrud, P., 2003).

Local governments borrow money - by selling bonds- for three primary purposes: to finance capital projects, to support and subsidize capital investment by private individuals and businesses, and to provide cash flow for short term spending or for special projects.

Local government may generate revenue by becoming the monopoly producer of a good or service and then charging prices that are greater than costs for that good or service (Fisher, R., 1987).

Intergovernmental grants are transfers of funds from one government to another, most often from a higher-level government to lower-level governments. Grants may be used to correct for externalities that arise from the structure of subnational governments and improve the efficiency of fiscal decisions. It can also be used for explicit redistribution of resources among regions or localities, and can be considered as a macroeconomic stabilizing mechanism for the subnational government sectors (Fisher, R., 1987). Central government transfer is considered an unstable source of revenue for subnational governments because of frequent changes in the decisions of central government officials. On the other hand, financing local investment by central governments can create disincentives for the generation of local revenues. As subnational governments have become increasingly dependant on central governments grants, it is more rational for them to devote time and energy for lobbying central government than for establishing and implementing systems for local revenue generation (Silverman, J., 1992).

These expenditures and financing measures are often used to indicate the type of decentralization within countries. The share of subnational governments in total public spending is understood to show their importance as provider of services, while the extent to which they are self-financing is supposed to reveal their degree of decision-making autonomy. However, these are only partial indicators. Discretion over spending and taxing does not necessarily follow from access to certain proportion of national resources. Conversely, the proportion of local funds coming from central resources does not invariably imply that local autonomy is reduced, although it does so more often than not (Silverman, J., 1992).

The main problem facing local government in this area is the "*fiscal gap*" between their spending responsibilities and their revenue-sharing powers. Since taxation represents the main source of revenue for local government, by looking at its structure, it is found that in some countries, local governments have been granted increased autonomy to set tax base or tax rates, while in many other countries effective taxing powers have been restricted. The increasing "fiscal gap" seemingly conflicts with the traditional view that the benefits from fiscal decentralization arise when the costs of providing local public goods are borne locally. However, this may reflect an unavoidable tension between proliferating local spending demands and a scarcity of tax instruments with the correct characteristics for being levied locally (Joumard, I. and Kongsrud, P., 2003).

Therefore, Stefan Bach and Dieter Vesper (2002) believed that the core for local government finance reform and for efficient implementation of investment projects must be to strengthen the financial position of local authorities by increasing their tax revenue. Higher revenues are essential to improve their ability to invest. At the same time, tax revenues to the local authorities should be made less vulnerable to cyclical fluctuations, to enable the local authorities to fulfill their local tasks more steadily. If they had more income, they would have more scope to perform voluntary self-administration tasks.

Richard Murphy (2005) provided some recommendations to improve the management of local finance system, as being the most fatal function affecting the whole management process. Some of related recommendations were:

- Local government must be given back the confidence and means to control their capital expenditure budgets and how they finance them.
- Unless local authorities have the freedom to control their revenue, they will never have sufficient funds to make appropriate choices on new capital spending or investment projects.
- Great care should be taken to ensure that local authorities receive both the financial and technical help they need from central government and the private sector to apply for commercial finance.
- Central government capital and revenue grants to local authorities should continue with a particular emphasis on ensuring that no authority is denied access to capital spending because of its inability to raise the necessary finance from its local population.

1-3-3 Implementation of local investment:

The ultimate measure of the success of project implementation is the sustainability of efficient and effective operations over the long-run, and that is a function of recurrent operation and maintenance (O&M). The effective performance of O&M function depends on: the appropriate design of initial project implementation arrangements; recurrent cost requirements, incentives for performance; and availability of required capacity.

With respect to “Project implementation arrangements”, there is a trade-off between short-term project implementation efficiencies and post-project effectiveness. The concern for sustaining project benefits through effectively institutionalized subnational arrangements mostly are not assigned a weight equal to that assigned to shorter term project implementation efficiencies. Therefore, methods for providing sufficient linkages between those responsible for one phase and those responsible for subsequent phases must be established during the upstream project implementation phase and should be explicitly addressed during investment planning process.

In many countries, ministries at the central level are responsible for all decisions concerning the location, design, construction and major rehabilitation of large-scale infrastructure projects. Nevertheless, responsibility for providing and actually performing post-project O&M is often assigned to provincial or local governments. (A more indirect influence from central government occurs when direct grants provided to local governments can be used only for capital investment, which in turn results in a subsequent obligation by local government to provide recurrent O&M from their own locally generated resources).

In a devolved system, financial self-sufficiency is an essential component of discretionary decision-making at local levels. For this to be realized, two requirements must be met: recurrent obligations resulting from centrally mandated or financed investments do not reach levels which totally absorb reasonable levels of locally-generated revenue; and local governments have the interest and capacity to calculate the recurrent cost implications of their own investments and those made by others on their behalf (Silverman, J., 1992).

Isabelle Joumard and Per Mathis Kongsrud (2003) suggested new approaches to manage the implementation of local investment explained as follows:

- **Amalgamations:**

Merging sub-national governments is one option to exploit scale economies and internalize spillovers. Amalgamations can also help to reduce the duplication of tasks, in particular administrative ones, and to balance intra-regional disparities in income levels with the needs of public services (in particular between city centers and suburban areas). Recent mergers have led to fewer authorities of larger size in a number of countries (including Belgium, Canada, Iceland, Netherlands and Sweden). The upper government tier often contributes financially to improve the attractiveness of amalgamation (Finland, Japan, Norway, and some cantons in Switzerland), as it may benefit from lower costs at a local level through the grant system. However, what may be considered appropriate policy for urban areas may not help much in dispersed rural communities when the delivery of high quality public investment and services is an important tool used for regional development objectives. Optimal boundaries also vary significantly between different public services (e.g. water management versus health care provision), implying that the redefinition of borders will never lead to an "optimal area" division for service provision. Amalgamations often meet fierce political resistance, due to vested interests or because sharing taxes and expenditures in a new and larger entity almost inevitably produces winners and losers.

Designing an asymmetric assignment of spending responsibilities could be an option, by transferring spending responsibilities only to jurisdictions with a critical mass and/or sufficient human and technical knowledge. In practice, however, few countries have used such an asymmetric assignment, mostly for political or geographical reasons.

- **Co-operation agreements across and between levels of government:**

Ad-hoc co-operation agreements among levels of government have increasingly been used to achieve "optimal" functional areas specific to each public service.

There are two broad approaches to such co-operation. The first relies on a purchaser/provider split. The supply of public services is concentrated in some jurisdictions, which receives some compensation from other jurisdictions benefiting from the services. This approach has been implemented in Denmark and Sweden for hospital care where patients have a legal right to choose hospital treatment outside their county of residence. Such a co-operative approach based on a purchaser/provider split can also be extended between levels of governments when spending responsibilities overlap.

Apart from allowing the exploitation of scale economies and the internalizing of spillover effects, this approach has the advantage of introducing some competition between providers of public-funded services, whether public or private, inducing greater cost-efficiency.

The joint provision of public services, through jurisdiction associations, has been another form of co-operation. In some countries, such co-operation arrangements have been encouraged by the government. In Hungary for instance, the central government promotes joint service supply organizations created by municipalities.

<u>There are two main constraints for the co-operative arrangements to develop further</u>. **First**, it requires appropriate and transparent cost accounting –

which in many cases is not available in the smallest jurisdictions – so as to set the financial compensation for the “buying” jurisdictions at a “fair” level. This has led the Swiss confederation to set up a model contract, containing minimal standards with respect to cost transparency, rights and obligations of the partners, and overall democratic accountability. **Second,** it may be difficult to apply to public services which are non-rival and non-excludable since free riding could not be discouraged.

1-4 Constraints and challenges facing decentralized management of local public investment:

The current trends of managing local public investment through decentralization face some constraints. Matthew Andrews and Larry Schroeder (2003) presented intergovernmental and bureaucratic politics and capacity constraints and timing as main constraints.

- **Intergovernmental politics:**

It influences decentralization as national politicians attempt to maintain central control over crucial service provision components, notably fiscal resource management and implementation and construction of service access points. National politicians generally exhibit a desire to maintain their influence over local public services and investment because: they are highly visible to political constituencies; they provide important opportunities for donor funding. In addition, for them, decentralization can create political threats.

- **Bureaucratic politics:**

National level bureaucracies attempt to ensure that crucial components related to service provision, especially construction and resource management, are centralized. In some instances these components are centralized in legal processes. Where legislation decentralizes them, other bureaucratic behaviors limit localization, including informal process requirements and direct forms of inter-organizational conflict.

Procedural requirements, whether legislated or informal, limit the operational authority of local entities and complicate procurement and personnel management.

Inter-organizational conflict arising from clashing rule structures also thwarts decentralization initiatives.

- **Local level capacity:**

Central bureaucrats and politicians regularly excuse continued involvement in local level provision because of capacity limitations at local government level. The argument is simply that financial management, project implementation, construction and planning have to be centralized because of poor local capacity.

It is commonly held that decentralization requires local level managerial and technical capacity, particularly planning, operations and maintenance.

A second aspect of capacity involves institutional abilities for intergovernmental coordination. Such coordination devices facilitate provision of different service components at different levels of government. Most central agencies have systems and procedures conducive to effective control and internal coordination but not external organizations. Without such capacity, central governments have no way of organizing the different components across government levels, resulting in a tendency to keep them all in-house. This is experienced in many services, but particularly health care and education. Service provision in these areas requires the coordination of a variety of components across levels, which can be difficult to achieve.

A third aspect of capacity pertains to fiscal management. Effective decentralized service provision requires an adequate level of local governance, including legal and financial capacity. This requirement extends to both monetary resources, i.e. a fiscal base sufficient to ensure funding for maintenance and operations, and personnel and process, i.e. appropriate staff and systems for managing the money. Where these capacities are limited locally, fiscal management tends to be centralized.

- **Timing:**

'Timing' constitutes another issue that can help explain a divergence between statutory decentralization and reality. Responsibilities are often not fully devolved either because the initiative has not reached that part of its plan or because it tried to devolve responsibilities before intergovernmental structures or local capacities were in place. Either slow or rapid implementation can also be used to sabotage the process.

Vito Tanzi (2001) added other constraints in front of decentralization, among which were:

- **Corruption:**

A few years ago, papers by Prud'homme and Tanzi advanced the hypothesis that decentralization could lead to more corruption. This hypothesis has led to a growing literature debating the issue or attempting to test it. So far, no broad consensus has emerged, some supported it and others rejected it. The reason for hypothesizing a positive relationship between decentralization and corruption is that in many countries local institutions are less developed than national ones. As a consequence, their ability to control abuses of power by public employees and officials is more limited than at the national level. Many factors can account for this difference in the quality of institutions at the national and subnational levels. For one thing, the brightest and best-trained people tend to join the national government where their career prospects and salaries tend to be higher; national governments are therefore more likely to be able to create more transparent and accountable public administrations. Furthermore, foreign technical assistance from international institutions and industrial countries is generally provided to the national governments of developing countries and not to the local governments.

In countries such as Australia, Canada, Germany, and the United States, the educational level of the population is so high that highly trained people are available for all levels of government and good institutions can be created by all jurisdictions. In many poor, developing countries, however, the best and most talented people, if they go into public service at all, join the national government. The quality of the subnational institutions and of their staffs thus tends to be lower. Lower salaries, fewer prospects for advancement, regulations, and greater contiguity of employees and citizens create conditions that increase the probability that poorer governance will be more common at the subnational level. Casual observation suggests that corruption is also more widespread at the subnational level. Even in the United States, cases of explicit corruption have been reported over the years in local governments, but rarely at the national level.

- **Fiscal Transparency:**

Transparency has gained attention because of the belief that markets and governments operate much better and more efficiently when they have sufficient, good, and clear information. It is obviously more difficult to provide clear and sufficient information when the subnational jurisdictions are fiscally important and operate independently from the national government. Quite apart from the difficulties in understanding the nature of their operations—a problem that also exists often at the national level—subnational governments rarely generate and publish good data on a timely basis, and the lack of complete or timely statistical information complicates the conduct of fiscal policy and the analysis of public sector operations.

In brief, it is worth noting that despite the need to decentralize local public investment responsibilities in order to improve efficiency, consideration must be given to some factors such as the significant inter-jurisdictional spillovers, substantial economies of scale, major income redistribution goals or insufficient local government capacity. At the same time it is not possible to declare that certain services or projects should always or never be decentralized. Since provision and production responsibilities are separable, investment responsibilities should be considered on a component-by-component basis.

However, Success is not guaranteed, and the process of decentralization is considerably more complex than simply declaring that a sector is ‘decentralized’.

Chapter 2: Local public investment in Egypt: towards a decentralized process:

2-1 Egypt: Background Information:

Egypt is one of the oldest societies in the world and is also one of the largest and most densely populated of the Arab countries (with over 1,000,000 square kilometers of land, and with about 80 million people). Much of the land in Egypt is desert and only 6 percent of the area is inhabited (El-Sahart, S., et al, 2005).

With the rapidly growing population, limited arable land, and dependence on the Nile, all continue to stress the society. The Egyptian government keeps struggling to meet the demands of Egypt's growing population through economic reform and massive investment.

The Nile River in Egypt imposed the emergence of one of the first centralized states in history. The central government's priority in Egypt, throughout its history, has been to ensure a productive distribution of irrigation water among regions. This priority enforced the successive central governments to establish local administration systems to guarantee the effectiveness of water distribution. In addition, the state's military and civil bureaucracy developed to administer, protect, and exploit agricultural production and surplus across Egypt's regions. Thus, the Nile River has been the basis of the centralized state in Egypt. Any weakness in the state was often associated with local rebels' attempts to break from the central government and even to establish their own independent systems of government.

The fact that Egypt was colonized throughout its history contributes to the centralized state in Egypt. The successive colonization powers, Roman, Byzantine, Arab, Mamluk, Ottoman, French, and British, had mostly preferred to rule Egypt through a centralized system.

The changes in the nature of the economy and the society after the country's independence in 1952 did not eradicate the centralized nature of the public administration system in Egypt. The socialist policies adopted by the successive governments starting from the middle of the 1950s until the end of 1960s, under the rule of President Nasser, strengthened the role of the state in administering both the economy and the society. The growing role of the state deepened the centralized nature of the Egyptian regime, in general, and the local administration system in particular.

The semi-liberal economic policies that Egypt has shifted to since 1975, under the rule of President Sadat and President Mubarak, were not associated with a parallel package of liberal social and political reforms. The combination of semi-liberal economic policies and non-liberal social and political policies maintains the centralized nature of the state and its local administration system throughout the 1980s and 1990s. The reason is that the burden of service provision is still in the hand of central government that has not shifted it either to the market or to the local units. Even when the government left little role for civil society organizations, especially not-for-profit organizations, it kept them regulated by laws and unified under the Ministry of Insurance and Social Affairs.

Egypt has a republic multi-party political system with a ruling political party, the National Democratic Party (NDP) that dominates the political and economic environment. There are minority parties but they are extremely small, in terms of the number of their representatives in the legislative and executive entities at the central and local levels, and they play limited roles in the political process in Egypt. The president is the head of state, specifically the head of the executive power that dominates the political life in Egypt.

The prime minister, who is appointed by the President, runs the government's day-to-day operations for the domains other than national security ones, mainly defense, security, and foreign policy. The NDP, which is the only source of political recruitment at the center and local levels, plays a key role in the formation and conduct of government. The main legislative body in Egypt is the People's Assembly, which is directly elected by the people (Amin, 2005).

2-2 Local Administration System in Egypt:

According to 2004 United Nations Human Development Report, the current administrative system in Egypt represents *one of the most centralized systems in the world.* While a large spectrum of services is devolved to local authorities in most countries, all services in Egypt such as water distribution and sewage, education, health, energy distribution, garbage collection, and even parks, are run centrally. Provision of services is executed locally but the central government maintains a strong grip and control over the finance and the administrative systems by which local services are provided (UNDP/INP, 2004).

One should distinguish between the "administrative system" in general and the "local administrative" system in particular. In the Egyptian terminology and practice, the term "administrative system" refers to, or more properly includes three branches as follows: First: <u>Public Administration</u>, which is the central apparatus of ministries (i.e. ministerial offices in the capital) and other central authorities and agencies (e.g. the Central Agency for Public Mobility and Statistics "CAPMAS", and the Central Authority for Organization and

Administration "CAOA"..). Second: Public Enterprises Administration, emerging through the process of privatizing public sector projects and adopting a market-oriented management style. Many of these projects is still owned by the state, however its legal and organizational status has been reformed by the law 203 / 1991, so that the projects are gathered in seventeen big holding companies with various affiliates, and are directed by free handed managers responsible before a general assembly consisting of both officials and professional experts. Third: Local Administration, which refers to the local units' structures and functions (EL Sawy, A., 2002).

2-2-1 Legal and Institutional framework of local Administration system:

Egyptian local administration rests on two legal foundations: the Constitution and Law 43 (1979), as amended. The Constitution refers to local administration as the third branch of the executive authority of the government, after the president of the state and the government. It includes one broadly written article, Article 27, plus three subsequent Articles:

Article 27: Beneficiaries shall participate in the management of the services of projects of public interest and their supervision in accordance with the law.

Article 161: The Arab Republic of Egypt is divided into administrative units enjoying legal personality, which are governorates, cities, and villages, and other administrative units may be established if the public interest so requires.

Article 162: Local Popular Councils are to be formed through direct election, providing that at least half of its members are from workers and peasants. The law warrants the gradual transfer of authority to them.

Article 163: The law shall describe the method of formation of Local

Popular Councils, their jurisdiction, financial resources, their relations with the People's Assembly, their role in preparation and execution of development plans, and their control over various activities.

The constitution's way of referring to local administration has led some experts to conclude that the permissive nature of the language provides Egypt the room to undertake decentralization without the need for a constitutional change.

According to the law 43/1979, local communities are enrolled in a five tier system of local administration as follows:

1) **Governorate:** the governorate is the main service delivery unit of subcentral Egypt. It may be simple and fully urban (as Alexandria, Cairo, Suez and Port Said) or complex consisting of one or more urban and rural communities. This distinction is reflected in the lower levels, i.e. simple/ fully urban Governorates have no Markaz, since the Markaz is a sort of conglomeration of villages. Moreover, Governorates may be composed of one city, like in the two cases of Cairo and Alexandria. Hence, these one-city-Governorates are solely divided into Districts (i.e. urban neighborhoods). Cairo consists of twenty-three Districts; Alexandria consists of six Districts.
2) **Markaz:** The Markaz is the next unit in the hierarchy below the governorate. It includes a capital city of the Markaz, other cities if existing, and a group of villages. It functions as the center for its constituents units. Before 1975, the Markaz was essentially an area division for functionally proper management of state activities (e.g. security purposes and registration for military service...). Now, each of the 166 Markazes has an autonomous legal status as a local unit, supervising the lower villages.

3) **City:** The City exists in all Governorates: as a one-city-Governorate, as the capital of a Governorate, the capital of a Markaz, or as a constituent city in a Markaz. Moreover, a City may be recognized with a special status enacted by a special law, i.e. the City of Luxor, by the law No.9/1989. Cities are divided into Districts if functionally necessary. There are over 200 Cities.

4) **District:** The District is the smallest local unit in urban communities. However, Districts differ from one Governorate to another in terms of size, population and political and economic circumstances. Districts in Cairo and Alexandria come on the higher-ranking Districts in Egypt, i.e. the two are the political and economic capitals respectively. Districts used to be further divided into sub-Districts or sections or neighborhoods called Sheyakha, which served as a smaller area division adequate for efficient service delivery, and to facilitate district management.

5) **Village:** The Village is the smallest local unit in rural communities. However, Villages differ from each other in terms of the legal status. There are two types: villages that are considered local units (mostly the larger ones) and the smaller “satellite villages”. Satellite villages, which are not considered local government units and thus have no public sector service role in the local administration system, and are included in the jurisdiction of the closer Markaz. Moreover, these satellite villages are further divided into sub-village neighborhoods, called Hessa (portions), e.g. Kafr, Ezba, Nagei...etc. In every satellite or sub-village, where there is no police station, there should be an Omda (Mayor). The Minister of Interior since late 1994 appoints mayors. They are mainly responsible for keeping

security and resolving social and land conflicts, irrigation matters and the like (EL Sawy, A., 2002).

In brief, the local administration system in Egypt can be classified in three levels for simple governorates and four levels for complex governorates. For simple governorate, the three levels are governorate, city and districts. For complex governorate, the four levels are governorate, markaz, city and village, and district (figure. 1).

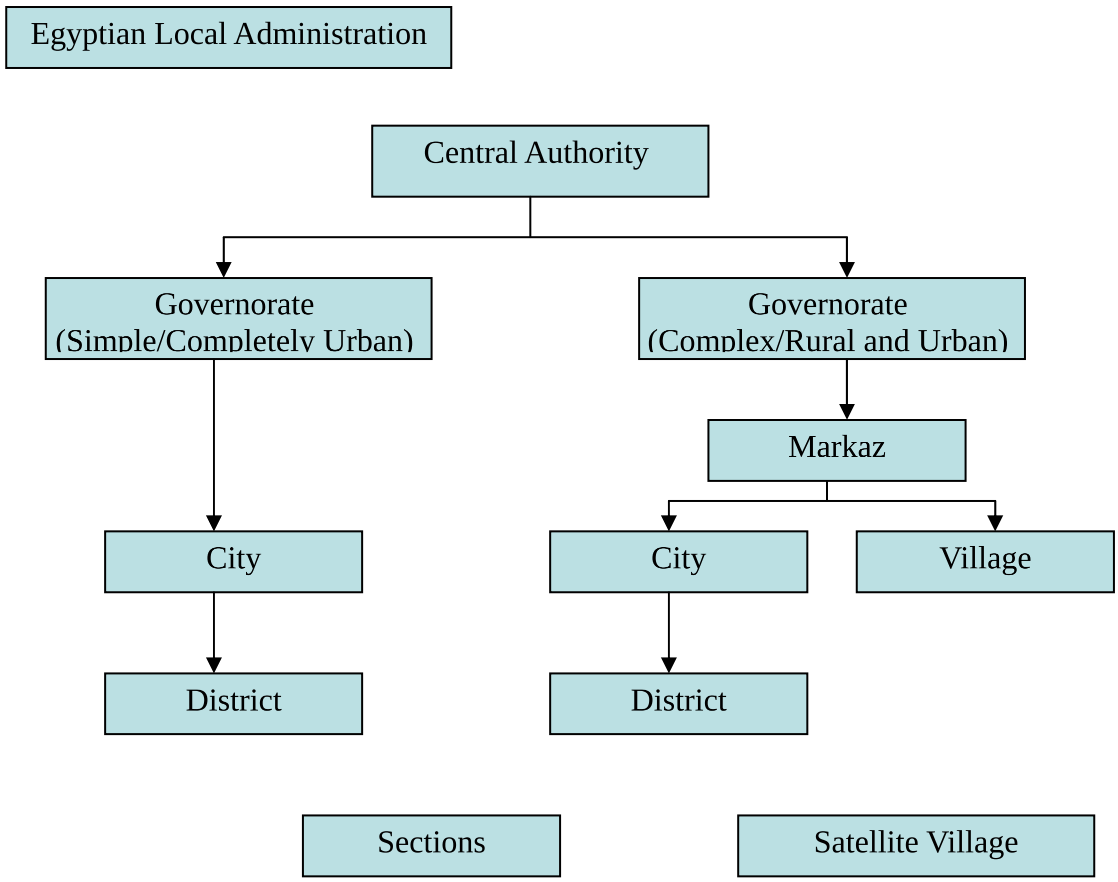

Figure 1- Egyptian Local Administration

2-2-2 Authority and Administration:

Each basic unit includes an executive officer, staff, and two councils. All local administration officers are appointed by and serve at the pleasure of, the appointing authority—the governor by the president; the chief of the markaz by the prime minister, city and district chiefs by the minister of local development, and the village chief by the governor. This is often a consultative process—for example, the Minister of Local Development typically nominates the governor and the governor is then consulted on the ministry's appointment of city and district chiefs. However, the mix of appointments creates incentives for intergovernmental conflict rather than cooperation among the sub-central government administrators since they are ultimately accountable to different officials in Cairo.

Each local administration unit operates with two councils: the constitutionally established Elected People's Council (EPC) and a centrally appointed Local Executive Council. Of the two, the power lies almost entirely with the appointed council, which is composed of government administrators from the line (central) ministries or the ministry directorates. The EPCs are directly elected every four years, and at least half of the members must be workers and peasants. The council members elect the EPC heads. Although the EPCs have been legally assigned functions, the reality is that they have very limited power, lacking any meaningful role in the preparation of the budgets of the jurisdictions they represent. Moreover, not only are EPC members legally prohibited from interrogating members of the local Executive Council, but also the language of Law 43 (amended) sends a clear message of the EPCs' fiscal policy powerlessness by using words in reference to the EPCs such as "supervise" and "follow up" rather than "provide" or "produce." An exception is a provision for a Local Services and Development Accounts (LSDA) that gives the EPCs and the governor the right to establish certain non-tax revenue accounts for activities such as housing, land reclamation, and industrial support.

The members of local Executive Councils are government administrators representing line (central) ministries and the ministry directorates. For example, at the governorate level, the council is headed by the governor and has in its membership the governor's assistants, the chiefs of the markaz, cities, districts, or urban administrative quarters, the heads of service directorates, and the authorities operating within the governorate. The secretary general of the governorate serves as the secretary general of the Executive Council as well. Similarly, the appointed chief executive officers of the markaz, city, district and village local government units are heads of the Executive Councils in their jurisdictions. Local Executive Council responsibilities include preparing the budget, assessing the performance of local administration projects and services, outlining the rules in the administrative and executive branches in their local activities, and setting the guidelines for managing and investing the governorate's real estate assets (Amin, K., and Ebel, R., 2006).

2-2-3 Analysis of local system:

A quick look at the administrative system in Egypt, one can notice that the local system combines representative and administrative functions. For example, each local unit should be governed through the collaboration of a local people's council and a local executive council. The major function of both is to better implement public policies at local level. However, the People's Councils play a political and cultural role, that is to say, community representation and participation in local affairs. Executive councils play two roles: representing the central government and implementing popular councils' recommendations, where not contradictory with public policies.

In the conduct of their work, Local units fall under a complex control grid, both from outside and inside the administrative system. The external control comes from the center: Governors are appointed by a presidential decree; the parliament issues local administration laws, and its members can attend and discuss any matter in local people’s councils; the media -especially the press- and more specifically the opposition's press- has an increasing influence on local units so that Governors are usually alert to what is published about them and their Governorates, and assign some of the personnel to react effectively; the Cabinet issues and regulates services' charges and dissolves local popular councils; the Prime Minister issues the executive regulations of the local administration laws, approves Governorates' bank loans, and substitutes any local unit if its performance is considered unsatisfactory; the Minister of Local Administration monitors the performance of local units and submits a yearly report to the parliament, resolves conflicts among local popular and executive councils, and redistributes the money of the Joint Revenue Fund.

The internal control is reflected in the administrative hierarchy of the local system. For example, higher executive and popular levels control the activities of the lower ones (e.g. approving the decisions, investigating officials, monitoring performance...). The presence of a system of checks and balances between executive and popular councils (e.g. the latter monitor the activities of the local executives through demanding explanations and raising questions; and the chief executives can veto/ ignore popular councils' recommendations, claiming them to be irrelevant, or being outside the jurisdiction of the local unit) (EL Sawy, A., 2002).

In brief, the current local administration system in Egypt has the following major characteristics: (1) centralization, (2) complexity, (3) instability and irrational change, (4) the dominance of appointed entities over elected entities, (5) lack of accountability mechanisms, and (6) lack of institutional capacity (Amin, 2005).

2-2-4 Egyptian Local administration system and Decentralization:

In the light of the previously described local administration system in Egypt, an important question is to be raised in this context: where the Egyptian system fits under decentralization forms?

Fox and Ghanem (1998) described the Egyptian local administration system as **"deconcentrated"**. They argued that: First, the Executive Councils, which are appointed by the central government, have the real and effective powers and authorities, especially at the governorate level. The Governorate Executive Council prepares the governorate budget (which is consolidated to include all districts, cities and villages in the governorate) and sets rules for management of executive agencies, investment in governorate lands and buildings, and housing and physical planning. Its members control all service delivery in the governorate. Second, the District Executive Councils prepare budgets for all cities and villages, provide technical services and resources to cities and villages, coordinate city and village projects, implement projects in cases where the cities or villages fail, and identify projects that serve more than one local unit. Third, expenditure responsibilities, as detailed by the Executive Regulation, are all delegated to the central government, even when the services are purely local in nature. Fourth, the Peoples' Councils only have the powers to approve or disapprove, suggest, recommend, and follow-up, within the bounds of State public policy. The Councils may even be left out of decisions, such as often occurs because of delays in the budget setting process. Fifth, higher Peoples' Councils supervise lower

Peoples' Councils, and can veto their decisions. Finally, though the Peoples' Councils have a free hand in using their financial and real assets, they are limited by the requirement that the governor approve their actions.

Khaled Z. Amin and Robert D. Ebel (2006) also saw that Egypt can be best described as having “**administrative deconcentration without authority”**. Not only do elected EPCs have very limited say in local administration spending and tax decisions, but even the administrative head of the governorate, the primary local service delivery unit, has very circumscribed powers. For example, although the Minister of Planning may issue a decree to invest to the appointed governors with the power to choose among investments, in the end the decision is still made by the line ministry (diwan) where the power resides.

2-3 Assignment of local public investment functions within the approach of decentralization:

2-3-1 Planning:

The designed investment projects are identified through two channels: central and local. Central ministries prepare their own investment plans, which will be achieved at local levels. Projects of the social services, health and education in particular are more centrally planned; local units follow and monitor. For example, when the Ministry of Education plans to build some new schools, it allocates and includes them into the Governorates' plans. So, the Governorates' education directorates are responsible for technical matters (e.g. school system, staffing...); while the local units are responsible for allocating the land, supervising the construction, following up and maintaining the infrastructure and services, etc. It may happen, however, that centrally planned projects are not very favored by the local units, especially by members of popular councils, who prefer to have fully local-made plans relevant to their community needs, which they know better (EL Sawy, A., 2002).

The national investment plan places a series of restrictions. Fox and Ghanem (1998) referred to some of these restrictions as follows:

- The plan is the basis for all laws and decisions being made by public authorities. Thus, the budget, as a law, must be taken from the plan
- Provisions of the plan have priority over other public laws
- The annual goals of the plan are binding on the State's general budget
- Investment obligations cannot be made in violation of the plan
- Approval by the Ministry of Economic Development "MOED" (known previously as Ministry of Planning "MOP") is required on most financial activities.

On the other hand, the governorate directorate for planning assists in investment planning activities. Its specific activities include:

- Communicating the essence of the State's public policy and outlining the development plan to the local units.
- Cooperating with the other concerned ministry directorates in studying projects that are submitted by local units, and coordinating and integrating the various sectors in preparing draft plans and referring them to the governorate Peoples' Council.
- Supervising and following up the execution of the approved local plan
- Assisting local units and their agencies in finding proper solutions for the problems facing the execution of the plan.
- Reporting monthly to the Governorate Peoples' Council and to the governor about the results of follow up and inspections.

In general, local planning is expected to help achieve the best use of available resources, to discover new opportunities inside each local unit, and to suggest a distribution of available resources in accordance with local priorities. However, in Egypt, the purpose of local planning is not to give local units the initiative and final voice in their plans. Evidence that local units have no deciding voice in the preparation of the investment and current budgets is that budgets are centrally prepared and decided upon. The local units only suggest proposals of local needs according to previously prepared priorities (figure. 2). The roles do not serve to build local capacity or to ensure that local priorities are met. The conception of a local plan is one-sided, as indicated by Article 118 of Law No. 43 of 1979 which states: "The local unit is to determine its needs according to well prepared priorities. It is to accumulate these needs and co-ordinate them in a draft local plan to be approved by the concerned local Peoples' Council, and transmit them to the governorate Peoples Council "(Fox and Ghanem, 1998).

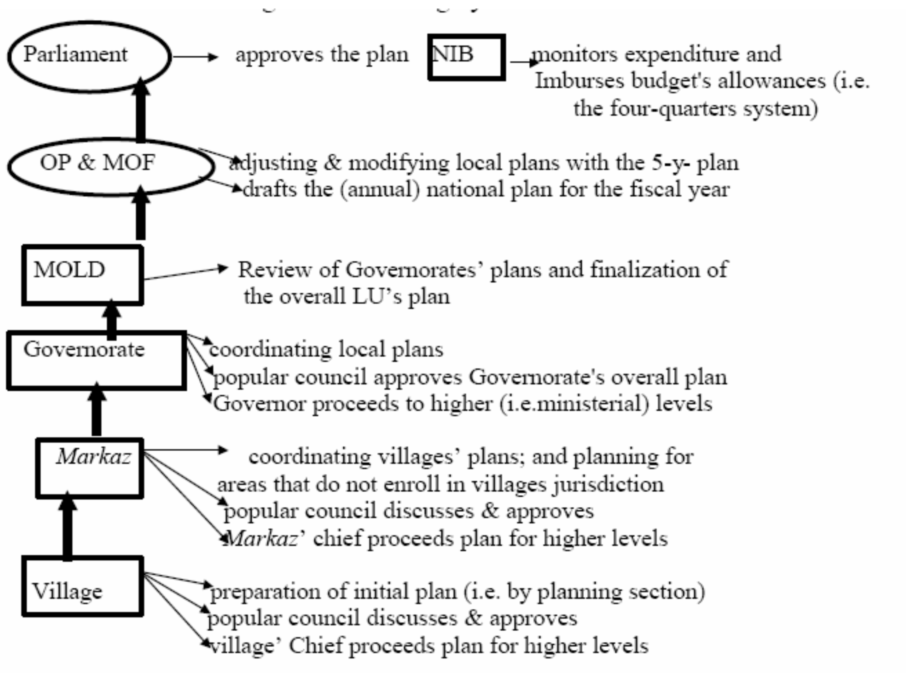

Figure 2 – Planning cycle at local level

(Source: Ali EL Sawy, 2002)

Egypt applies *a top-down approach in the conduct of investment planning*, and still the center decides what and where project to be executed, regardless of the real needs of local units. And the process goes as follows as presented by Samir Abd.El-Hamed, and Fared Ahmed (2006):

- The political authority determines the goals and the size of investment, and distributes these investment projects on different sectors (agriculture, industrial, transport…) according to the role of each sector in achieving the goals.
- The departments of Ministry of Economic Development distribute the investment projects on different sectors according to centrally decided aggregate/overall number.
- The departments of regional planning geographically distribute these investment projects, and inform regions and governorates with their specified investments.
- At the same time, local units prepare a proposal of the suggested investment projects.
- The governorates' planned projects go to the Ministry of Economic Development which is responsible for the harmonization between those proposals and the state's general plan. However, the central ministries have the final word.

In brief, the process of planning for local investment goes as follows: The MOED office for each governorate informs governorate units of the instructions and guidelines concerning the annual investment plan and appears to have some role in assessing local needs. This is to ensure that local projects are tailored to the priorities of the National Plan. The governorate executive council puts the draft investment plan together and submits it to the elected local council for its approval. Governorate plans are then forwarded to the MOED for review and consolidation and the preparation of the investment chapter of the budget.

For some directorates (such as water resources and irrigation and land reclamation) the investment chapter allocations are held at the ministry level because many such projects cross governorate boundaries. In such cases, apart from being consulted on these larger projects, the governorate may also propose minor local projects, such as repair of a local irrigation channel. (Shand, D., 2005).

It thus becomes evident that governorates and local unit do not have an influential role in planning for investment. The process is still very centralized, despite the governments' declared efforts of moving towards decentralization and giving local units a greater say in the determination of projects more demanded by their communities.

2-3-2 Financing:

There are two main sources for finance in the existing local system: the major one is governmental subsidies or grants, constituting around 80% of the resources; and the other is additional/ local funding, mainly through Special Funds. Most of the investment budgets are financed through transfers. About two thirds of total finance comes from the National Investment Bank (NIB). Foreign donors contribute about 8 percent of funds for local investment (Fox and Ghanem, 1998).

It is worth noting that local budgets are an integral part of the State general budget and requires the approval of the national legislature. This approval is required for the entire budget, and not only for governmental subsidies and grants-in-aid.

The budgets of all lower local units plus the governorate level offices are incorporated into a single governorate budget. The governorate finance directorate prepares the consolidated draft budget for the governorate and all of its local units. The Governor is supposed to present the draft budget to the governorate Peoples' Council for discussion and approval at least four months before the beginning of the fiscal year. However, delays in completion of the Ministry of Finance’s annual guidelines and in budget preparation often cause the budget to be sent forward without approval of the People’s Council. The Governor then negotiates the consolidated budget with the General Secretariat for Local Administration. The final proposed budget (for all governorates) is sent to both the Ministry of Economic Development and the Ministry of Finance and an additional round of negotiations occurs. The governor’s major potential contribution lies in his ability to negotiate a better than average increase in expenditures.

The Local People’s Councils have little influence on the budget, other than their often ignored advisory role. The Peoples' Councils have no authority to set local taxes, fees and duties, and again, can only propose revenue sources. They are required to approve the annual investment plan. However, they have no right to interrogate officials about the budget, which limits their ability to scrutinize and comment on it (Shand, D., 2005).

The financing system of local investment faces many difficulties as a consequence of the problems facing local financing system in general. These involve:

- Lack of funds, which makes fund-raising a major concern of local councils and also gives greater power to the executive branch of the system.

- A major source of finance for local units and the Ministry of Local Development "MOLD" (known previously as Ministry of Local Administration "MOLA") has been the Joint Revenues Account of Governorates. Half of the amount goes into the budgets of the Governorates where the import-export, movable properties, industrial and commercial taxes were collected. Thus, Cairo, Alexandria, Port Said and Aswan Governorates get together some 30% of the amount. The other half goes to the MOLD, to be used in local developmental projects especially in deprived Governorates. Yet, the Ministry of Finance approves the MOLD's use of money on the condition that the Ministry of Economic Development gives prior approval for the MOLD's projects. Governorates should submit their proposals for local developmental projects in accordance with the national plan directives. Thus, it appears that the Ministry of Finance has traditionally discouraged the creation of a budgetary system at the local level that would be independent of the central government's overall plans. However, a great deal depends on the negotiating powers of a governor and the weight of support he is receiving from the Minister of Local Administration.
- The central government and line ministries, as well as the governor and Governorate financial directorate, play important roles in the budgetary process. The more a governor is development-oriented and committed to decentralization, the more he allows for cooperation between local institutions (appointed and elected) and motivates popular council to raise funds locally and to activate community participation, instead of being greatly dependent on or clients of the central government. Yet, the

complicated budgetary process also stands in the way of an ambitious and energetic outlook of a governor (making some of them less enthusiastic for recalling for decentralization; others taking politically miscalculated risks and thus facing a critical situation with the central government).

- As for locally chosen projects, a complex legal structure and fiscal regulations constrain local investment finance. Until 1991 the National Investment Bank (NIB) imbursed the total money specified for Governorates' budgets as a lump sum; now the imbursement is allowed in four quarters, i.e. every three months. To receive their allocated money, Governorates should submit necessary financial documents of expenditure proving that they have already spent the previous lump properly, i.e. according the approved budget. Yet, starting project implementation, i.e. contracting, requires that the local unit have the money already. Hence, the problem is two-fold: First, the imbursement procedures usually take time, perhaps up to three months, following the legal and bureaucratic regulations in designing and doing the bidding, etc., especially for bigger projects, and preparing contracts and other documents to be submitted to the NIB. Second, the NIB, in its turn, follows complicated regulations to approve the documents and imburse money to Governorates, and specifies deadline time for them to use it. The result is that Governorates may receive the money short before the specified period is over, after which money can not be imbursed, or until the end of the financial year, after which the unused money is returned to the national treasury. Most of local units can not, therefore, fully accomplish the yearly-approved projects in their plans. (As for the unachieved projects, most of them are practically included in the next year plans - as "projects under completion"- or the executive leader (e.g. Governors) try to finance them through the Local Development Fund, or remain uncompleted for some longer time)(EL Sawy, A., 2002).

- The local administration share of national investment spending by sector is based on Egypt's Five-Year Plan for Social and Economic Development. Here the problem of the data link between a deconcentrated and a more functionally decentralized system becomes particularly apparent: the plan of (2002/03 through 2006/07) shows an allocation of just 1.7 percent of total investments for local works (table 1) The reason behind is that the bulk of investment funds are allocated directly to the central service ministries, so capital spending is tucked away in line ministry budgets. Thus, one cannot conclude that there is no local investment action in the development sectors of education, health, and housing or the major income-generating sectors of construction, industry, commerce, and agriculture (table 2). As Egypt decentralizes, one of the new institutional capacities to be developed will be a decentralized system of data collection and monitoring (Amin, K. and Ebel, R., 2006).

Local administration share of national investments by sector, in the National Five-Year Plan, 2002/03–2006/07

Percent

Sector	Overall investment allocations (LE billion)	Investment allocated to local administration (LE billion)	Percentage of total
Agriculture	58,900	0	0.00
Industry	60,900	76.3	0.13
Petrol	40,900	0	0.00
Electricity	32,800	883.4	2.69
Construction	15,500	0	0.00
Transportation and communication	58,200	2,583.0	4.44
Commerce	15,700	0	0.00
Tourism	22,200	0	0.00
Housing	36,300	0	0.00
Utilities	38,500	3,097.6	8.05
Education	32,200	0	0.00
Health	17,400	0	0.00
Other social services	15,500	816.	5.27
Total	445,000	7,456.6	1.70

Table 1 – Local administration share of national investments by sector

Source: Ministry of Economic Development, 2005.

Local administration current expenditure distribution by sector and region, 2001

Sector	Urban	Lower Egypt	Suez Canal	Upper Egypt	Frontier	All Egypt
General secretariat and councils	19.24	17.13	36.76	15.16	23.22	22.30
Education	59.20	52.05	40.57	53.07	50.20	51.02
Health affairs	13.71	10.24	10.06	13.37	13.00	12.08
Housing and utilities	0.54	2.60	2.14	1.99	0.74	1.60
Social affairs	2.68	2.69	3.90	2.29	2.40	2.79
Supply and internal trade	1.17	1.74	1.15	1.31	0.97	1.27
Agriculture	0.39	8.48	1.86	8.35	4.11	4.64
Manpower	0.57	0.48	0.76	0.43	0.58	0.57
Transportation and roads	0.69	1.31	0.31	0.50	1.39	0.84
Youth and sport	1.06	1.80	1.86	1.67	1.68	1.61
Organization and administration	0.09	0.11	0.16	0.17	0.45	0.20
Veterinarian medicine	0.65	1.36	0.46	1.69	1.26	1.08
Total	100.00	100.00	100.00	100.00	100.00	100.00

Table 2 – Local administration current expenditure distribution by sector & region

Source: The Peoples' Assembly.

- Each year, the MOED reviews investment proposals from different agencies and Ministries to determine the budget. The MOED may also propose investment projects of its own accord since it is responsible for drafting and implementing the Five-Year Plan (FYP) in line with Article 114 of the Constitution. The NIB, in turn, is responsible for screening the proposed projects and supervising implementation, if approved. Significant changes in the project funds require approval from MOED. The MOED's criteria for evaluating the merits of different projects require strengthening and better specification with clear ex-ante guidelines, including cost-benefit analyses. The primary rule for approval and incorporation of an investment project in the FYP appears to be its fulfillment of investment targets identified in the Plan. This would avoid the impression that program assessment and fund disbursements could be susceptible to discretionary allocations and, possibly even, political considerations (UNDP/INP, 2004).
- Ministries are the bodies responsible for investing in public services in different governorates. The MOLD only receives investments for the maintenance and/or expansion of the administrative functions of local government. Since no Governorate is free to allocate investment funds to a particular priority project, there is little real room for 'local choices' in the delivery of national policies. Without some budgetary discretion, local actors can hardly realize significant welfare, let alone any economic gains (Weisner, 2003). In addition to local government finances through the general government budget, local governments are allowed under the law to maintain special accounts and funds outside the framework of the

national budget. These accounts represent an additional source of revenues for local government levels that supplement their fiscal resources. While local government revenue (including revenue from funds and special accounts) accounted for five percent of total government revenue in 2001/2, special accounts represented almost 30 percent of local government revenue, with transfers from the NIB accounting for a similar share. Yet more often than not, these funds are used to complement central government expenditure on local investment projects. This means that governorates often give up the limited degree of financial independence that the funds grant them in order to complete investment projects – a trend which would be reversed if MOED would integrate local government so as to identify local investment needs adequately (UNDP/INP, 2004).

To conclude, on the expenditures side, the level of autonomy of local government to make investment decisions is restricted by central government. Only 15 percent of aggregate investment of expenditures is conducted at the local government level, and the allocation of the bulk of aggregate investment is directed to the local level by decisions made by the MOED and line ministries, according to MOED's Five Year Plan and priorities. Thus, even the autonomy for each governorate to execute this expenditure is almost nonexistent. Wages are determined centrally by the number of workers in public services in each governorate -the approval of new projects requires additional workers. On the other hand, the allocation of investment expenditures in total local government expenditures is limited to only 8 percent of local government expenditures and is primarily for the maintenance cost of MOLD units.

In addition, governors have lost the authority to transfer budget allocations from one budget chapter to another. Within the same chapter, such as the investment budget chapter, the governorate cannot shift funds allocated from one investment project to another, that is, from a hospital to a school for example, these being under the investment budgets of two different ministries). Meanwhile, the Minister of Local Government can transfer allocations from one governorate to another without referring to the governor.

The Ministry of Economic Development has announced that starting with FY 2005/06, it will take a step toward deconcentration with authority by assigning 16.7 percent (LE 2.09 billion) of public investment to the governorates to manage based on their preferences and priorities (Amin, K. and Ebel, R., 2006). However, more real steps towards devolution, rather than only delegation of authority, is needed for Egypt.

2-4 Why Egypt needs decentralization in managing local public investment?

Centralization of management functions of local public investment does not appear to be working in Egypt. The quality of public services is missing. This means that a considerable share of public resources is being wasted as those expenditures fail to provide the basic services citizens need and expect to get. (EDI and PADCO, 2005)

Under the current situation, local government is discouraged from raising funds, as these are appropriated by the central government (According to an amendment of Law 43/1979, added in 1988: “local councils cannot raise revenues or create other sources of revenue collection without Cabinet permission”). Thus, by allowing local government to retain higher shares of certain taxes would provide an incentive at the local level not only to collect the taxes but also to support the private sector and promote economic activity and diversification in each governorate (Weisener, 2003). Therefore, applying decentralization should mean better planning and allocation of resources so as to reduce uncertainty at the local level (UNDP/INP, 2004).

Beyond those impacts, not decentralizing management functions of local investment in Egypt will mean to forego other positive benefits associated with decentralization. Decentralizing investment-planning and implementation could generate projects that are of highest priority for the poor in any region. A decentralized body "in comparison to national governments is more accessible, more sympathetic and quicker to respond to local needs". On a local level, programs and projects can be more easily adapted to particular local circumstances and needs. This is so because local authorities are obviously more knowledgeable about a local situation than central authorities who are far away from realities at the grass-root level. As a result, the necessary information to plan such programs and projects is more readily available and the chances of success are consequently higher.

It will also allow the Egyptian local communities to share in the costs through mobilization of local resources and allowing more accountability in project implementation and operations. The close relationship between citizens and government at the local level fosters accountability since the decision-making that is close to the people is a good instrument to prevent governments from abusing their powers. This is because firstly, it is more difficult to hide corruption among those in authority when the citizens know the officials than in situations where "the Government" is far away and inaccessible. Secondly, it is easier to hold local officials and elected office-bearers accountable for their actions than it is to impose accountability on politicians at higher levels of government, as members of local governments are often less protected politically than the corresponding official in the central government.

Also, the transfer of spending decisions to local levels helps address the problems of investment mal-distribution and misuse of resources. Both the availability of information necessary for taking proper actions and the potentially higher degree of accountability will lead to a better use of available resources. This will allow doing more with limited resources. Government resources can be allocated most efficiently if responsibility for each type of public expenditure is given to the level of government that most closely represents the beneficiaries of these outlays.

One of main strategic goals of the Egyptian government is achieving economic development including local development. Development is possible without decentralization of local investment projects management, however, the advantages of strong local governments for a more efficient administration just outlined above also help to improve local development projects. Decentralization shall remove institutional and legal obstacles to self-help encourage innovative forms of solutions for local problems. By letting the local people determine how a particular program should be designed, involvement of the local government enhances the sense of ownership and responsibility for the project. The citizens are therefore more likely to invest their time and resources into furthering the project's goals. This in turn helps to produce better results than if the development activities were decided upon from the distance of the central government. In addition, local government may make development activities more sustainable by involving the people affected more directly in the implementation of projects. The ability to help in the early planning phases of a development project in turn encourages the local population to carefully monitor and protect the results of the planning (Kälin, W., 1999)

Local governments have the potential to perform better; however, one must remember that better administration is not an automatic result of decentralization. Still, if local governments are properly equipped to fulfill their tasks, the chances for achieving “better government” through decentralization increase.

Decentralization need not, and usually does not, occur evenly across the board. That is, implementation will be asymmetric. Depending on a variety of political, economic, and institutional and organizational realities, different areas or service sectors may be treated differently (Bird and Ebel, 2006). Therefore, Egypt can choose the approach that best fits with its own circumstances, within the framework and general guidelines experienced by other countries.

2-5 Problems and Constraints facing the decentralized management of local investment:

The current Egyptian local administration system faces many problems that constraint the decentralizing process of local public investment management. Among these problems are:

Separation between Expenditures and Revenues: No correlation exists between local current revenues raised as part of the State budget and the ability of local governments to spend through the budget. This has several perverse effects. The expenditures available to a local government depend on their historical level and the ability of the governor to negotiate for more. Political skill rather than service demands and needs become the driving force for additional spending. On the one hand, every local unit has a strong incentive to argue for the maximum revenues possible, since there is no local cost. Not surprisingly, the People's Councils consistently seek much larger budgets than they receive. However, the governor and other administrators are responsible to central authorities, not the local people, and their incentive may be to keep the budget relatively small. Indeed, their incentives may be to under-spend the budget allocations. In addition, accountability by service providers is to the central government rather than to the local population. The criteria used for evaluating success are more likely to be the ability to follow bureaucratic rules and to control costs rather than to provide quality services that people demand.

Separation between Current Expenditures and Investments: Numerous ministries and agencies are involved in aspects of local government finance. The Ministry of Finance makes decisions on budgets for the governorate directorates and the line Ministries together with the Ministry of Finance decide on budgets for local teachers, health workers and so forth. The Ministry of Economic Development, operating somewhat independently, makes investment decisions as part of the five year plan. The Social Fund for Development and the General Secretariat for Local Government also make grants and loan for investment purposes.

The overall system is very poorly coordinated. The governor is responsible for coordinating the planning directorate with the line ministry directorates, but neither the governor nor the directorate heads control budgets and expenditures. The five year plan provides general coordination for investment resources, though the different granting agencies do not coordinate between themselves. As a result, it is very possible for a new school to be constructed with no resources having been allocated for operational purposes (Fox and Ghanem, 1998).

Central government control over budgeting for local projects: Although, in theory, each popular council is supposed to develop a draft budget, the reality is different. A popular council does give a great input to the draft budget that is eventually sent forward to the higher level of administration; but most of these inputs which go beyond the initial guidelines stipulated by the ministerial representatives in the Governorates (i.e. sectorial directorates) are quietly ignored at the central government level (EL Sawy, A., 2002).

Confused Lines of Authority: All local administration officers are appointed by and serve at the pleasure of, the appointing authority. This mix of appointments – as previously mentioned- creates incentives for intergovernmental conflict rather than cooperation among the subcentral government administrators since they are ultimately accountable to different officials in Cairo (Amin, K. and Ebel, R., 2006). At the same time, governors have relatively little direct control, despite their role as the chief official in the governorate. The system causes employees, who are already reticent to take initiative, to be particularly conservative about doing anything unusual. Local consumers are disadvantaged by the system since it is difficult for them to identify who is responsible for service delivery. The governor is likely to be the focal point for many complaints despite his inability to directly control delivery (Fox and Ghanem, 1998).

Inadequate local capacities: It is argued that lower administrative levels are frequently lacking the necessary capacities to perform new functions. There is a need for stronger control systems to assess performance and to prevent corruption in each sector, along with training and capacity building of local officials as well as members of elected People's Councils. For example, in education, an institutional change via decentralization, introduced without timetable and guidelines for personnel training and salary structure, curriculum reform, methods of providing teaching material and equipment would have limited positive effect on academic achievement. Capacity building would be costly and could take time. Ideally, capacity building should start immediately and in parallel with decentralization efforts.

In brief, the highly central administration of planning, financing and expenditure has reduced cost effectiveness and accountability of local administration units, as well as impacted on the quality of the process of planning, execution and follow-up of the central authorities. Thus, fiscal management of local development has remained almost entirely from the center. Under the 2003/04 State Budget, for example, the government and its authorities manage LE 11.8 billion in investment under Budget Chapter Three, while local administration units combined manage only LE 1.7 billion (UNDP/INP, 2004).

This has led to a state of dependency by local communities on the government, and has diverted the attention of local citizens away from local institutional structures; they turn instead to central government to solve their financial and other problems. Only the center is perceived able to provide financial resources, to implement local development plans or to monitor the performance of the local administration units themselves. In its most notorious form, this dependency is expressed in the perception that parliamentary elections and elected representatives are basically channels for requesting services from the central government.

2-6 Recommendations/Action plan to adopt decentralization in managing local investment:

Well designed decentralization is not a zero sum process. Where decentralization is well designed, nations are wealthier, grow faster, and are more stable than nations with centralized systems (Ebel and Yilmaz, 2003).

Designing a decentralized system to manage local investment achieves a major shift in development and implies reducing the powers and jurisdictions of upper levels in the government and increasing the powers and jurisdictions of lower and local levels. It means changing the power structure as a means to move the development of Egypt as a whole to a higher level of equilibrium, as the historical constraints that inhibit its development are removed.

Decentralization implies transferring the authority to regional governorates and other lower local entities to set local priorities and plans, mobilize local resources and implement and control local investment projects. Central ministries and organizations should limit their focus to broad plans, strategies and policies, setting national standards, controlling and regulating these standards, and on providing incentives to governorates to implement national programs. They should also have an impact on the local plans, policies, and programs through an incentive structure composed of financial resources and management of standards and benchmarks. The center should support local entities to create strategic plans, and monitor the implementation of such plans and their outcome.

Therefore, Egypt has to gradually develop and implement a strategy towards the real adoption of decentralization as an approach to manage local public investment. The decentralization strategy shall deal with the previously mentioned problems and constraints. This can be dealt with as follows:

To deal with the "Separation between Expenditures and Revenues":

- The bottom-up approach resulting from the adoption of decentralization will render the tasks of managing local public investment easier by breaking up the monolithic bureaucracy which is difficult to manage or hold accountable from Cairo. And this means that accountability shall be to the local people to ensure good quality, and not to the bureaucratic rules.
- The governor is in the best position to debate priorities and arbitrate among members of his constituency. Once the governor has become an elected position, his authority should no longer be disputed except by his constituency and he should be insulated from the bureaucracy at the center which currently acts to hamper local initiative and local public/private partnerships.

To deal with the constraint of "Separation between Current Expenditures and Investments":

- Coordination of planning for investment expenditure is essential, taking demographic projections and urban planning as the basis for special and functional distribution of capital budget allocation at the governorate level. Decentralization allows for making good investment plans, since it involves the people who are directly affected by the planned projects.
- At the local level, elected Popular Councils should be in a position to represent community preferences in full knowledge of the budget envelope, costs and benefits of each project and time frames involved.

To deal with the constraint of "Central government control over budgeting for local projects":

- The transfer of considerable authority to local government over a transition period should be subject to continued conditions of fiscal neutrality: The allocation of the investment budget across governorates should no longer be decided behind closed doors at the center. Coherent and transparent rules should dictate the size of the capital budget transferred to each governorate according to the size of its population, the volume of its resources and the magnitude of the gap in its human development index. This would mean that the geographical coverage of the Safety Net Program will improve if resources were allocated according to size of population in each governorate/ district (WB, 2004).
- Local government should have the right to collect and retain certain taxes that are internationally recognized as principally spent on community services such as land and real estate taxes as well and at least part of the sales and excise taxes. They should also be provided with incentives to administer and improve on collection of corporate and income taxes, as well as the authority to retain a portion with which they spend locally so as to further promote economic activity and employment in their region. (UNDP/INP, 2004).
- Local governments would also be responsible for financing their investment projects. Local government revenues would come from a combination of local taxes and intergovernmental transfers. Local governments should have a set of taxes over which they control the rates, though potentially subject to minimum and maximum rates established by the national government. Transfers would continue to provide a significant source of revenues. The transfers must be structured such that they

- Locally elected councils, if they are to enjoy real autonomy, must have strong control over a local executive that is subservient to the elected council. In Egypt the opposite situation appears to reign. Based on experience in other unitary countries this relationship will have to be dramatically altered and stood on its head if decentralization is to stand any chance of success in Egypt. a locally elected people's council (LPC) in a decentralized world need to be able to set their own budgetary and expenditure priorities, within centrally imposed limits, and to have a dedicated local executive authority that will prepare budgets on the basis of those priorities and submit those budgets for LPC approval and possible amendment. By far the easiest method of accomplishing this reform is to transfer line Ministry employees currently working at the local level to the authority of the LPCS with some powers to define employment conditions and salary levels. This is where long experience with deconcentrated governance styles can usefully speed up and facilitate the process of decentralization by providing an experienced cadre of local experts to undertake the task of providing and managing local service delivery. In this scenario line ministries themselves would retreat from direct provision of local services and would instead concentrate on policy formulation, regulation and monitoring of local governments, all proper functions of the central government. (EDI and PADCO, 2005),

To deal with the constraint of: "Confused Lines of Authority":

- Although Egypt's Constitution and local government legislation provide the room for extensive implementation of the rules and division of responsibilities required for decentralization, the laws and executive decrees should be reviewed to clarify some aspects and eliminate all areas that allow for duplication of authority or for double subordination of lower levels of administration. Administrative decentralization not only involves the transfer of power from top to bottom, but also changing roles for the two levels: the center should withdraw from service delivery and be engaged in setting standards and in regulation, while the local level should be empowered to carry authority and accountability for actual service delivery. The separation of policymaking from purchasing and service provision creates clearer channels of accountability. Autonomous providers of services have more flexibility in ensuring the appropriate input mix.
- Decisions would need to be made on the assignment of functions between the devolved local governments and the central government and governorates. Governments would have control over service delivery decisions in their assigned areas. One option would be to assign the central government activities such as planning, major public works, housing, social safety net and other functions that require large capital investments. Local governments could deliver others, such as primary and preparatory education, water, sewerage, street cleaning and lighting. In their areas of responsibility, local governments would have the authority to hire and fire

employees and to set service levels (possibly subject to certain national minimum standards).

To deal with the constraint of "Inadequate local capacities":

- All levels of the local hierarchy should enjoy the benefit of training alongside the practice of authority. Capacity building should include not only the principles of public administration but also those of democratic practice, delegation of authority, and responding to local community needs, not to specific interest groups. The notion of rewarding competence with promotion should replace the practice of promotion by seniority. Capacity enhancement could be for both central and local governments: the local governments need capacity building to assume responsibility of decentralized functions, and central government's staff need to be trained and motivated to change their functions from line management to policy formulation (WDR, 2004). Capacity enhancement also includes management information systems, and communications and data availability issues. Governments must be allowed to build capacity in a learning-by-doing manner. It is wrong to delay reform on the basis that governments are not fit to grapple with reform of the intergovernmental system; rather, they build the capacity as they become intergovernmental.

The Human Development Report for Egypt (2004) has recommended two phases to accomplish decentralization in Egypt. Phase I reforms act as a catalyst for Phase II reforms. They mainly included:

Phase I:

The cornerstone of a more fiscally decentralized system, Phase I assists the government in defining incentives for phase II. It also helps users of the system to acquire autonomy by making decisions consistent with the provision of welfare. Phase I must focus on introducing the following policies:

1. **Enhance Accountability:**

Enhancing accountability will require increased reliance on Governorate-level HDIs to assist the MOED in determining public investment. A greater volume of investments will need to be directed to the Governorates with the lowest HDIs. Disbursements should follow a redistributive logic based on subsequent changes in the indicators.

Moreover, Governors should be made aware that their performance will be judged according to HDIs. In addition, the right of local councils to interpolate the Executive over the choice and implementation of community projects needs to be reinstated to give council members incentives to participate in the allocation of investments. This will require providing the requisite amounts of training to qualify council members for participating in budget negotiations.

2. **Make Budget and Investment Data More Readily Available**:

The availability of reliable data is critical for the allocation of public resources to appropriate services required by communities. Increasing the transparency of local government finances (with access to investment budgets) will allow different actors to discern budgetary incentives, feasibilities and constraints. Raising public awareness is expected to raise public demand for institutional change gradually.

3. **Encourage Local Government Units to Strengthen their Financial Independence:**

The tax collection record of local governments could be improved by offering rewards for improvements in their tax collection performance – a scheme that could be integrated in the MOF's performance-based budgeting program. Legislation permitting Governorates to levy additional taxes, subject to ex-ante principles of previous performance should be re-enacted.

4. **Revisit the Process of Public Investment Determination:**

Fiscal decentralization in the determination of investment expenditure would only require minimal legislative changes to the current system. As illustrated above, the bulk of investment is currently conducted by the central government and the Service Authorities. Under the new plan, the MOED would continue to function as the agency determining which public investments are incorporated in the FYP, but would do so with more stringent and transparent guidelines as to the criteria for project selection.

These requirements would be determined in advance, which would give local communities greater incentives to participate in determining their own investment priorities at the micro-level. The MOED's identification of priority projects ultimately would have to follow a Governorate-by- Governorate process.

In addition, LGUs should be allowed to rely on research institutions and universities to implement project evaluations on the basis of accepted economic indicators. Cost-benefit principles must be better applied.

5. **Conduct a Comprehensive Evaluation of Special Accounts and Funds**:

Actors should try to evaluate the successes and failures of these accounts. While their significance in terms of the volume of revenue is negligible, they are potentially the foundation for a rules-based process of fiscal decentralization.

Phase II

The second phase is characterized by the introduction of a comprehensive market-based system with rules that guide public investments and encourage the participation of independent parties. Regulations would cover the processes of identifying service needs, evaluating their costs and benefits, managing these services, and monitoring their operation. The accumulated body of knowledge that both policy-makers and participants gain from the first phase will allow them to agree on a set of critical parameters to be included as 'rules' in the newly decentralized system of decision-making.

The second phase envisions the following:

1. **Elected Popular Councils Play a Central Role in Local Public Choices:**

The crux of fiscal decentralization is the accountability of public sector decision-makers toward their constituencies. Elected Popular Councils should receive the right to monitor the performance of government officials and report their activities to back to their constituencies.

2. **Civil Service Reform:**

It is likely that the current levels of civil service employment at standardized wages will continue to remain in place. However, once institutional and human capacity infrastructures are established, civil service reform will need to hold public servants accountable for the provision of public services. It must also address imbalances in Ministries where the share of administrative positions outweighs that of professionals, such as doctors or teachers.

3. **Ministers are Responsible for Setting Sector policies:**

LGUs should receive the authority to implement investment projects. Ministries would be required to formulate policy priorities and means of translating these into the expenditure of local revenue. The Ministries' policy guidelines could serve as yardsticks that determine which LGU would receive central government subsidies as a reward for complying with policy objectives and adhering to the Ministries' procedural guidelines for meeting these objectives.

4. **Fiscal Responsibility Law**:

The proposed law would lay down investment measures and subsidization principles while eliminating the possibility of bailout in cases that do not meet ex-ante principles. The principle of fiscal neutrality does not necessarily mean that LGUs would be expected to break even; they could start confronting a financial constraint not exceeding the level of their governance budget deficit through a gradual reduction in their dependence on central government transfers.

In conclusion, if no power is devolved, no decision would be made, that if jurisdictions are not clearly delimited, nothing would be targeted, and that if local resources are not devoted for local units, no action would be undertaken. As a proverb: "No political volition, no fiscal decentralization, no delimited functions, and no authority". (Ghanem, 2002).

A final point that is obvious but nevertheless worth putting on the record: decentralization can be done well or done badly. Done well, it can lead to the benefits promised by a well functioning intergovernmental system: enhanced macroeconomic performance, better local services (such as primary education, clean water, and access to health, justice, community public safety, and transportation) and, for some countries, enhanced national cohesion. But, if decentralization is done badly, it can lead to a macroeconomic mess, neglect of the needs of local citizenry (and especially the poor), corruption, collapse of the safety net, and social tension (Amin, K. and Ebel, R., 2006).

Conclusion:

Decentralization is a widely used approach to manage local public investment. It has proven its success in many countries. Decentralization, however, is not a goal in itself; instead, it is a tool to achieve societal developmental objectives through the efficient use of local units' resources and abilities. It is a mean through which local communities can fulfill their needs within the general framework of public policies.

Before developing a plan for decentralization, it is a must to assess the lowest organizational level of government at which investment management functions can be carried out efficiently and effectively. It is also necessary to carefully analyze the types of decentralization already present in a country in order to tailor policy plans to the existing structures.

In a decentralized system, investment planning and financing must be enhanced. Planning functions should be decentralized in certain ways such as having a vertically linked deconcentrated planning system within each sectoral ministry or a system which devolves particular planning responsibilities to local governments, perhaps with technical support provided by sectoral ministries. On the other hand, the financial position of local authorities must be strengthened through reforming the finance system to increase their sources of revenue. If they had more income, they would have more scope to perform voluntary self-administration tasks. Unless local authorities have the freedom to control their revenue, they will never have sufficient funds to make appropriate choices on new capital spending or investment projects. At the same time, local authorities should receive both the financial and technical help they need in managing local public investment from central government and the private sector. In addition, local officials must be well-trained to carry out the newly assigned responsibilities and functions after decentralization.

After all, the logic behind decentralization is not about weakening the central authority, nor is it about preferring local elites to central authority, but it is fundamentally about making governance at the local level more responsive to the felt needs of the large majority of the population (Bardhan, P., 2002).

As for Egypt, the stress upon applying decentralization in managing local investment is an ongoing trend that appears frequently in the speeches of political representatives. The gradual approach is the most preferred and recommended by scholars for Egypt. To do that, Egypt has to consider the necessary factors for the success of decentralization: decentralization efforts depend on the presence of a clear vision regarding the position and functions of local governments and on a strong political will to implement that vision. It also depends on the willingness of both the central and the local level to see each other as partners- not competitors- in an ongoing process.

Without a strong legal framework clearly setting out the powers, rights, and duties of local governments, it is often impossible to know who is responsible for what. This allows central authorities to interfere easily with local affairs. A strong legal framework to support decentralization efforts is required for Egypt.

The success also depends to a very large extent on the availability of sufficient resources to local government to invest and the possibility of using these resources autonomously. They should also have the right of to spend this money without excessive prior control by central authorities. They should also have the right to take decisions on local projects without undue interference by national planning authorities and line ministries.

Transparency of governmental actions and the possibility to access relevant information such as budgets, plans, etc. and transparency in the relations between local governments and the supervising authorities is a must for the success of decentralization efforts.

Training of local officials and providing them with the necessary technical assistance is one of main requirement on the side of central government. Without the availability of effective local capacity to run the different management functions of local investment, decentralization efforts can be doomed to failure

Decentralization leads to the promising benefits if it is done well. Therefore, Egypt has to develop a decentralization strategy that fits with its own conditions and achieves the intended goals.

Finally, it is worth noting that centralization and decentralization are not "either-or" conditions. In most countries an appropriate balance of centralization and decentralization is essential to the effective and efficient management of local investment. Not all functions can or should be financed and managed in a decentralized fashion. Even when national governments decentralize responsibilities, they often retain important policy and supervisory roles. Central ministries often have crucial roles in promoting and sustaining decentralization by developing appropriate and effective national policies and regulations for decentralization and strengthening local institutional capacity to assume responsibility for new functions.

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